

KENTUCKY ECONOMIC INDICATORS

December 2007 as of February 27, 2008

KY Composite Index of Leading Indicators decreased by 2.3 percent in December.

- The Leading Index decreased for the seventh time this year.
- Year-over-year the index was down by 1.1 percent.
- The component indicators leaned negative, 2:3.
 - KY Labor Intensity Index decreased 1.6 percent.
 - KY Index of Initial UI Claims decreased by 16.2 percent.
 - US Retail Sales decreased by 5.2 percent.
 - + US Manufacturer's New Orders Index increased by 19.4 percent.
 - + Louisville Help Wanted Index increased by 1 point to 20.

Component weights for December are 69.2, 12.9, 11.7, 4.9 and 1.2 respectively.

KY Composite Index of Coincident Indicators increased by 0.04 percent in December.

- The Coincident Index is positive for the ninth time this year.
- Year-over-year growth is positive for the fifty-third consecutive month at 1.0 percent.
- Component indicators leaned positive, 2:1.
 - KY Nonagricultural Employment decreased 1.6 percent.
 - + US Industrial Production Index increased 1.5 percent.
 - + US Personal Income Less Transfers increased 0.9 percent.

Component weights for December are 37.6, 31.3 and 18.5 respectively. Component weights do not sum to one because the two US components were discounted to give the Kentucky component more weight.

The Kentucky Leading Index fell by 2.3 percent in December. This is the tenth consecutive time (over 11 months) that the index has changed directions. The Kentucky Labor Intensity Index declined strongly in December. This large decline erased much of the gains from the last three months. The Kentucky Labor Intensity Index was largely responsible for the fall in the Kentucky Leading Index. The other components of the index were mixed. The Kentucky Index of Initial Unemployment Claims decreased by 16.2 percent, completely erasing its November gains. The October losses of 2.5 points from the index have not been recovered. UI Claims have become more variable in 2007, while containing a negative trend line.

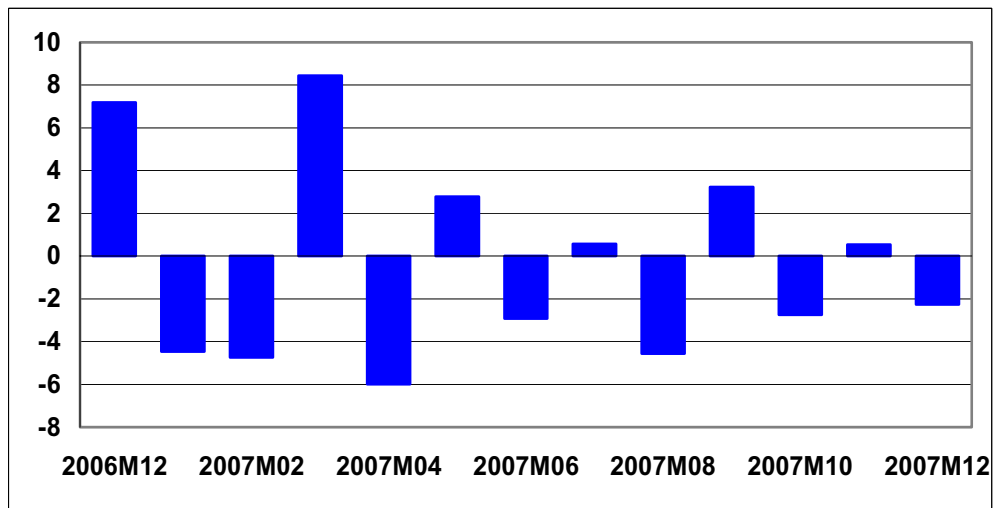
US Retail Sales, which has a strong positive trend component (but still highly volatile), declined by 5.2 percent in December. Retail Sales declined by a seasonally adjusted \$1.7 billion from November-to-December. Holiday sales were down by most measures compared to 2006. December-over-December growth in 2006 was 5.9 percent, while it was only 3.7 percent in 2007. November 2006 to December 2006 Retail Sales grew a seasonally adjusted annual rate-adjusted 18.3 percent, while it declined by 5.2 percent in 2007. The last time that November-to-December Retail Sales fell was in 2003 when sales fell by 6.2 percent. Retail Sales also fell in December 2001, catching the tail end of the recession.

US Manufacturer's New Orders increased moderately in December. In November 2005 the series reached a local maximum at 137.2. Since then the series has meandered downward, never once sustaining three consecutive declines. The series is currently down 1.6 percent over December 2006. This series is the second most volatile of the five leading index components. The Louisville Help Wanted Index ticked up by one point to 20 points in December. The variation in the Louisville Help Wanted series has tapered in the latter half of 2007. The series has fallen from 23 in July to 20 in December. There are two potential explanations for this change in behavior. The series may finally be reaching its contraction bottom or it may be undergoing a structural change indicating that newspaper ads are much less responsive to changes in the labor market (and the economy) like they once were.

The US Leading Index declined for the third consecutive month, signaling an upcoming contraction for the national economy. The US Leading Index is calibrated to mean that in six to twelve months the reference series will begin to contract. The Conference Board is still optimistic that this will not indicate a recession: "It is still possible that the economy will achieve slow growth in the first half of 2008, and avoid falling into recession, but that risk has clearly been elevated."

Kentucky Private Services Employment fell in December by 0.5 percent, again struggling to recuperate from strong gains earlier in the year. The employment series reached a local maximum in March 2007 with 1,175,500 seasonally adjusted jobs. Currently the series is down by 2,600 jobs since March. However, the series is up 8,100 jobs over last December. Meanwhile, manufacturing employment continues to sustain losses. Manufacturing employment declined by 11.6 percent in December, a seasonally adjusted loss of 2,600 jobs. Manufacturing employment has lost a net 9,600 jobs since December 2006.

Our indices are compiled and published on a monthly basis, roughly two weeks following the Conference Board release of the U.S. Leading Index. A complete description of the Index of Leading Indicators and methodology was published in the University of Kentucky Center for Business and Economic Research *Kentucky Annual Economic Report, 2000*.



About the Indicators

Kentucky Reference Series

Inflation-adjusted personal income less transfer payments and policy-adjusted general fund tax receipts are combined to form the GOEA composite reference series.

Kentucky Leading Indicators

- **KY Labor Intensity Index:** Composed of seasonally adjusted weekly hours multiplied by employment for the following manufacturing industries: Lumber products; chemical and allied products; petroleum, coal, rubber and plastic products; fabricated metals and transportation equipment.
- **KY Initial Unemployment Insurance (UI) Claims Index:** This index has two components: Kentucky claims in their first month of payment and total U.S. initial claims. Additional claims for UI are the subset of initial claims filed by workers who have previously filed UI claims but are currently filing new claims with intermittent workforce attachment since their original claim. The claims in their first month of payment without intermittent qualified experience performed better in the testing process and were chosen accordingly.
- **U.S. Retail Sales:** During turning points in the Kentucky economy, U.S. Retail Sales was not strictly concave or convex to the origin. For this reason inflexion points were used to test turning points in the U.S. Retail Sales series. U.S. Manufacturing and Trade Sales performed better than U.S. Retail Sales in testing, but because U.S. Manufacturing and Trade Sales was not published in a timely manner it had to be removed from the Kentucky Leading Index.
- **U.S. Manufacturer's New Orders Index:** This index has two components: US Manufacturer's New Orders for Nondefense Capital Goods and US Manufacturer's New Orders for Consumer Goods and Materials. Separately these two series slightly missed one or two turning points in the official reference series. But together they preceded each turning point.
- **Louisville Help-Wanted Index:** The Conference Board computes an index of help-wanted advertisements for major regions across the United States; Louisville is the only city in Kentucky covered by the Conference Board.

Table Notes:

- 1) Growth rates are computed with precise numbers. Due to rounding, two observations may have the same reported value but still exhibit growth at a more precise level.
- 2) More information is available on our website, www.osbd.ky.gov

*Office of State Budget Director
Room 284, Capitol Annex
Frankfort, Kentucky 40601-3453*

*Thomas Jones
Phone: 502-564-7300
taj@ky.gov*

**SELECTED KENTUCKY ECONOMIC INDICATORS
SEASONALLY ADJUSTED**

2006		2007												
DEC	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC		
KY Leading Index (1992=100)	113.5	113.1	112.6	113.4	112.8	113.1	112.8	112.8	112.4	112.7	112.4	112.5	112.3	
	7.2	-4.5	-4.7	8.4	-6.0	2.8	-2.9	0.6	-4.6	3.2	-2.7	0.5	-2.3	
	0.2	-0.4	-0.6	0.0	-0.5	0.1	-0.4	-0.2	-0.3	-0.2	-0.4	-0.3	-1.1	
	66.7	73.3	70.0	73.3	66.7	70.0	56.7	56.7	56.7	60.0	63.3	63.3	66.7	
KY Coincident Index (1992=100)	136.2	136.1	136.5	136.7	136.8	136.8	137.0	137.4	137.4	137.6	137.4	137.6	137.6	
	4.1	-1.0	4.0	1.7	1.0	-0.6	2.1	3.1	0.6	1.6	-2.0	1.8	0.0	
	1.9	1.6	1.8	1.6	1.5	1.5	1.3	1.6	1.5	1.6	1.2	1.4	1.0	
	KY Non-farm Employment (000s)	1,850.9	1,854.3	1,854.1	1,858.8	1,856.7	1,856.8	1,854.6	1,853.4	1,853.8	1,856.6	1,858.5	1,859.8	1,857.3
3.2		2.2	-0.1	3.1	-1.3	0.1	-1.4	-0.8	0.3	1.8	1.2	0.8	-1.6	
0.9		0.7	0.6	0.5	0.8	0.6	0.5	0.8	0.4	0.6	0.8	0.7	0.3	
KY Private Services Employment (000s)		1,164.8	1,169.7	1,170.3	1,175.5	1,169.6	1,171.3	1,170.5	1,169.6	1,170.3	1,170.6	1,172.8	1,173.3	1,172.9
	2.8	5.2	0.6	5.5	-5.9	1.8	-0.8	-0.9	0.7	0.3	2.3	0.6	-0.5	
	1.3	1.3	1.3	1.0	1.0	1.0	0.8	1.0	1.0	0.8	1.0	1.0	0.7	
	KY Mfg Employment (000s)	262.1	260.9	259.7	255.7	260.1	257.0	257.4	257.3	254.4	256.0	255.4	255.3	252.7
7.1		-5.4	-5.4	-17.0	22.7	-13.4	1.9	-0.5	-12.7	7.8	-2.8	-0.5	-11.6	
0.1		-0.9	-1.3	-2.8	-0.9	-1.8	-1.8	-0.1	-2.6	-2.0	-1.5	-2.0	-3.6	
KY Unemployment Rate (%)		5.4	5.6	5.7	5.4	5.3	5.5	5.4	5.7	5.6	6.1	5.6	5.0	5.7
	KY Index of Initial UI Claims (1992=100)	103.5	103.9	102.2	103.6	102.7	104.0	103.7	104.2	103.4	103.9	101.4	102.9	101.4
		10.1	3.8	-17.6	17.2	-9.5	15.7	-3.7	6.4	-8.3	5.8	-25.5	19.2	-16.2
		-0.3	-1.1	-2.0	-0.4	-1.5	0.9	-0.2	0.6	1.0	1.1	-1.7	0.2	-2.1
KY Labor Intensity Index (1992=100)		104.9	105.0	104.8	104.6	104.7	104.6	104.5	104.5	104.4	104.5	104.6	104.6	104.5
	1.7	0.3	-1.8	-1.9	1.0	-1.1	-1.6	0.3	-1.7	1.6	1.1	0.1	-1.6	
	0.0	-0.1	-0.3	-0.5	-0.3	-0.3	-0.6	-0.4	-0.6	-0.4	-0.2	-0.2	-0.5	
	Louisville HWI (1992=100)	42.0	35.0	31.0	43.0	29.0	30.0	28.0	23.0	22.0	23.0	23.0	19.0	20.0
232.3		-88.8	-76.7	4,973.2	-99.1	50.2	-56.3	-90.6	-41.3	70.5	0.0	-89.9	85.1	
-19.2		-20.5	-26.2	7.5	-27.5	-14.3	-24.3	-32.4	-31.3	-34.3	-36.1	-50.0	-52.4	
GF Total Tax Receipts (\$ mill)		881.4	682.8	544.3	652.7	671.9	784.7	788.6	608.6	566.5	822.3	639.4	624.7	822.3
	5.4	0.2	7.1	9.1	-11.2	11.3	-2.5	5.2	2.4	-1.5	1.5	-1.0	-6.7	
	GF Sales & Use Receipts (\$ mill)	238.9	286.2	193.6	212.5	202.4	270.9	243.0	251.0	241.8	235.5	246.7	236.1	235.2
		4.4	-1.0	1.3	3.9	-12.2	15.1	5.3	0.7	4.9	5.1	1.7	5.5	-1.5
GF Income Tax Receipts (\$ mill)		269.2	202.1	227.1	204.0	283.4	337.8	289.0	249.2	240.6	332.9	265.6	236.9	295.4
		5.9	-8.5	14.1	19.0	-16.7	58.6	11.4	9.0	5.8	18.1	6.9	-2.3	9.7

SELECTED U.S. ECONOMIC INDICATORS SEASONALLY ADJUSTED

	2006												2007													
	DEC	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC	DEC	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC
US Leading Index (1996=100)	138.4	137.9	137.1	137.9	137.6	137.9	137.6	138.6	137.1	137.5	136.7	136.1	136.0													
	7.2	-4.3	-6.7	7.2	-2.6	2.6	-2.6	9.1	-12.2	3.6	-6.8	-5.1	-0.9													
	0.1	-0.5	-0.6	-0.4	-0.4	0.2	-0.1	0.8	0.1	-0.1	-0.7	-1.1	-1.7													
US Coincident Index (1996=100)	123.4	123.3	123.5	123.8	124.0	124.1	124.3	124.7	124.9	125.0	125.0	125.0	125.1													
	4.0	-1.0	2.0	3.0	2.0	1.0	2.0	3.9	1.9	1.0	0.0	0.0	1.0													
	2.2	1.8	1.8	1.8	1.9	1.9	1.9	2.0	2.0	2.0	1.6	1.6	1.4													
US Non-farm Employment (Mil.)	137.0	137.1	137.1	137.3	137.4	137.5	137.6	137.7	137.8	137.8	138.0	138.0	138.1													
	1.8	1.1	0.2	1.6	0.4	1.4	0.9	0.5	0.6	0.7	1.2	0.5	0.7													
	1.6	1.5	1.3	1.2	1.2	1.3	1.3	1.1	1.0	1.0	1.0	0.9	0.8													
US Service-Providing Employment (Mil.)	114.5	114.7	114.8	114.9	115.1	115.2	115.4	115.4	115.6	115.7	115.9	116.0	116.1													
	2.2	1.2	1.6	1.4	1.1	2.0	1.2	0.9	1.5	1.2	1.9	1.2	1.5													
	1.8	1.8	1.7	1.6	1.6	1.8	1.8	1.6	1.6	1.5	1.6	1.4	1.4													
US Manufacturing Employment (000s)	14,033.0	14,015.0	13,988.0	13,953.0	13,922.0	13,910.0	13,890.0	13,884.0	13,844.0	13,822.0	13,797.0	13,794.0	13,774.0													
	-1.9	-1.5	-2.3	-3.0	-2.6	-1.0	-1.7	-0.5	-3.4	-1.9	-2.1	-0.3	-1.7													
	-1.2	-1.4	-1.6	-1.8	-2.1	-2.0	-2.2	-2.1	-2.2	-2.2	-2.1	-1.9	-1.8													
US Unemployment Rate (%)	4.4	4.6	4.5	4.4	4.5	4.5	4.6	4.7	4.7	4.7	4.8	4.7	5.0													
US Manufacturer's New Orders Index (1996=100)	132.3	125.7	126.2	129.8	130.4	128.3	129.6	133.3	128.8	128.2	128.4	128.3	130.2													
	34.7	-45.8	5.1	39.6	6.6	-18.3	13.2	40.4	-34.2	-5.0	1.4	-0.9	19.4													
	-3.0	-5.3	-4.7	-4.0	-1.5	-2.9	-2.1	1.7	-0.5	-3.0	-0.5	-0.6	-1.6													
US Initial Claims for UI (000s)	320.0	310.3	338.2	316.3	328.9	307.6	319.6	306.0	324.9	313.1	327.5	340.4	343.3													
	-24.0	-30.9	181.0	-55.2	59.8	-55.2	58.3	-40.7	105.3	-35.8	71.5	59.0	10.7													
	1.9	6.9	10.9	3.0	5.5	-7.2	3.2	-2.1	2.7	-0.7	4.3	4.0	7.3													
US Industrial Production Index (1992=100)	112.2	111.7	112.5	112.4	113.1	113.0	113.5	114.2	114.1	114.2	113.5	114.0	114.1													
	7.8	-5.7	9.5	-1.1	6.9	-1.2	6.0	8.1	-1.4	1.1	-6.7	4.7	1.5													
	2.8	2.4	2.9	2.2	1.9	1.9	1.5	1.7	1.4	1.8	1.4	2.2	1.7													
US Personal Income Less Trans. (Bil. 2000 chnd)	8,363.9	8,362.8	8,406.7	8,439.9	8,419.1	8,411.2	8,441.7	8,477.9	8,513.5	8,534.6	8,522.9	8,522.8	8,529.4													
	2.9	-0.2	6.5	4.8	-2.9	-1.1	4.4	5.3	5.2	3.0	-1.6	0.0	0.9													
	3.5	3.4	3.7	4.0	3.6	3.9	3.6	4.4	4.8	4.2	2.6	2.1	2.0													
CPI, All Urban (1982-84=100)	203.3	203.6	204.2	205.1	205.8	206.7	207.2	207.7	207.7	208.5	209.1	210.9	211.7													
	7.4	1.5	3.6	5.7	3.9	5.7	3.2	2.7	0.2	4.5	3.2	11.3	4.4													
	2.6	2.1	2.4	2.8	2.6	2.7	2.6	2.4	1.9	2.8	3.5	4.4	4.1													
US Retail Sales (\$Billions)	368.2	368.7	369.3	372.9	371.7	377.7	374.7	376.9	377.2	380.2	380.3	383.4	381.7													
	18.3	1.7	1.9	12.2	-3.8	21.3	-9.0	7.2	0.9	10.2	0.4	9.9	-5.2													
	5.9	2.6	3.6	4.4	2.8	5.1	4.0	3.7	3.6	5.0	4.8	5.6	3.7													
US Consumer Expectations (1966=100)	81.2	87.6	81.5	78.7	75.9	77.6	74.7	81.5	73.7	74.1	70.1	66.2	65.6													
	-25.3	148.5	-57.9	-34.3	-35.3	30.4	-36.7	184.5	-70.1	6.7	-48.6	-49.7	-10.4													
	1.2	11.0	9.4	3.6	3.4	13.8	3.8	12.4	8.4	-5.2	-17.3	-20.4	-19.2													
Ave. Prime Interest Rate (% NSA)	8.25	8.25	8.25	8.25	8.25	8.25	8.25	8.25	8.25	8.03	7.74	7.50	7.33													